

Overview of the Commonwealth's Debt and Capacity

Presentation to Capital Outlay Subcommittee of
the House Appropriations Committee

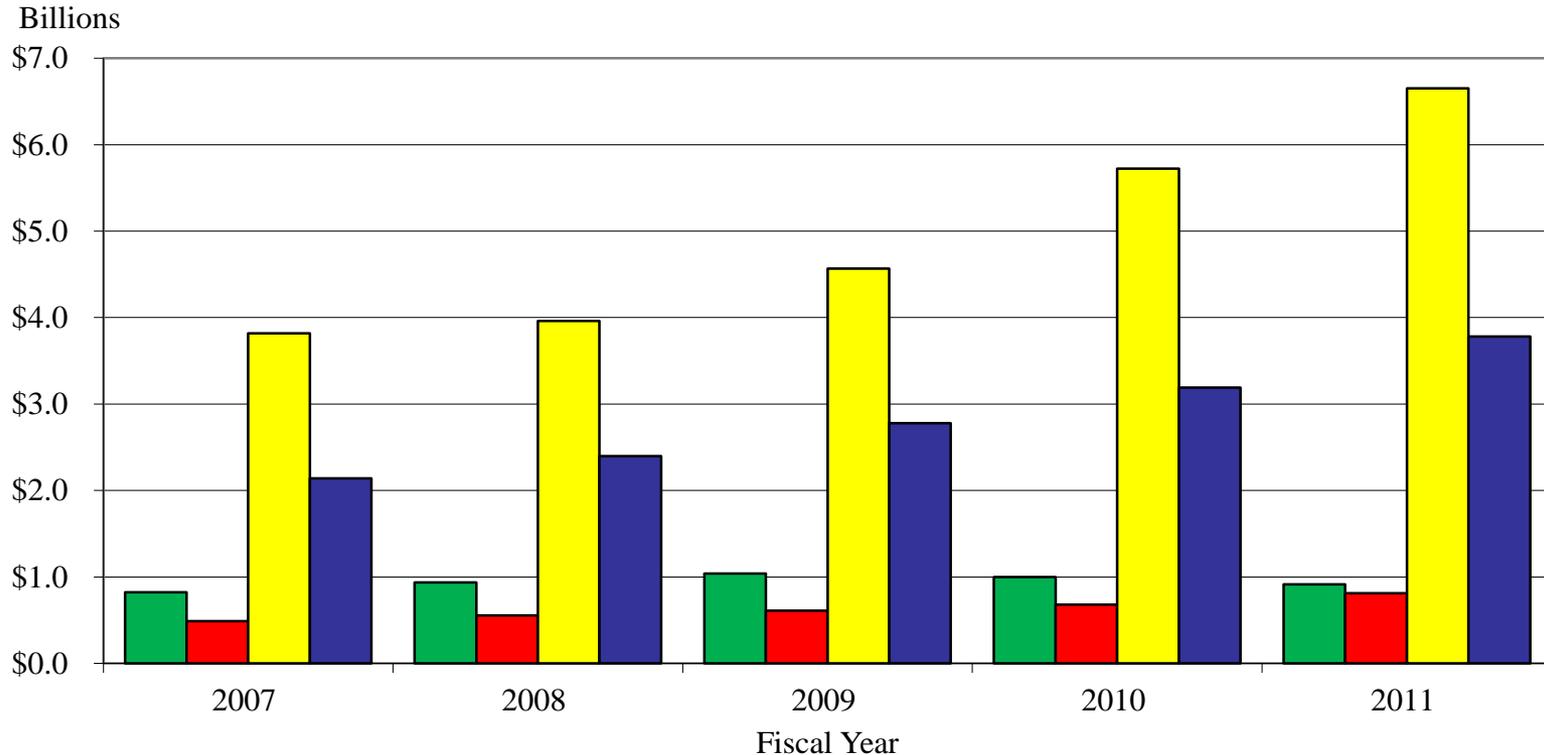


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State Treasurer
January 18, 2012

Presentation Overview

- Outstanding Tax-Supported Obligations
- Debt Position Compared to Other States
- Bond Ratings and Recent Developments
- Debt Capacity
- Proposed New Debt Authorization

Outstanding Tax-Supported Obligations of the Commonwealth - Fiscal Years 2007-2011



■ Section 9(b)	■ Section 9(c)	■ Section 9(d)	■ Other Long-Term Obligations
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GO Full
Faith &
Credit

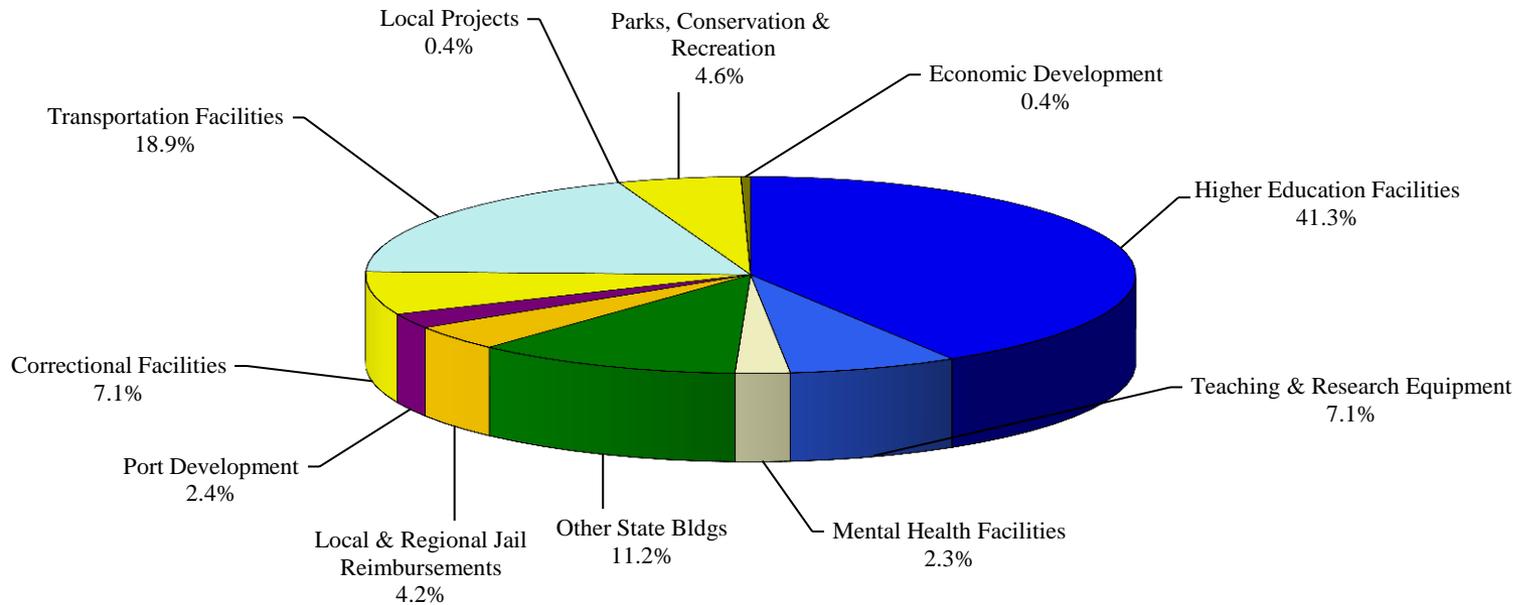
GO Self-
Supporting

Appropriation
Supported
VPBA, VCBA
CTB

Compensated Absences
OPEB Liability
Pension Liability

Uses of Tax-Supported Debt Issued

Uses of Tax-Supported Debt Issued FY 2002 - FY 2011



Ten-year Total = \$8.1 Billion

Virginia's Debt Position Remains Strong Compared To Peers

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2002-2011 PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)(2)

	2011										
	Ranking	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Delaware	6	\$2,676	\$2,489	\$2,128	\$2,002	\$1,998	\$1,845	\$1,865	\$1,800	\$1,599	\$1,650
Maryland	15	1,681	1,608	1,507	1,297	1,171	1,169	1,064	1,077	977	879
Utah	20	1,222	957	447	542	621	707	792	846	682	708
Georgia	24	1,103	1,120	984	954	916	784	803	827	802	804
VIRGINIA	26	1,058	895	782	764	692	601	589	546	546	566
North Carolina *	34	782	765	832	898	728	804 *	682 *	556 *	429 *	375
Missouri	35	775	780	670	675	613	496	449	461	368	347
Iowa*	48	270	73 *	79 *	98 *	104 *	110 *	130 *	139 *	156 *	166 *
Median All States		1,066	936	865	889	787	754	703	701	606	573
AAA Median		1,081	926	807	831	710	746	737	692	614	637
AAA Average		1,196	1,086	929	904	855	815	797	782	695	687

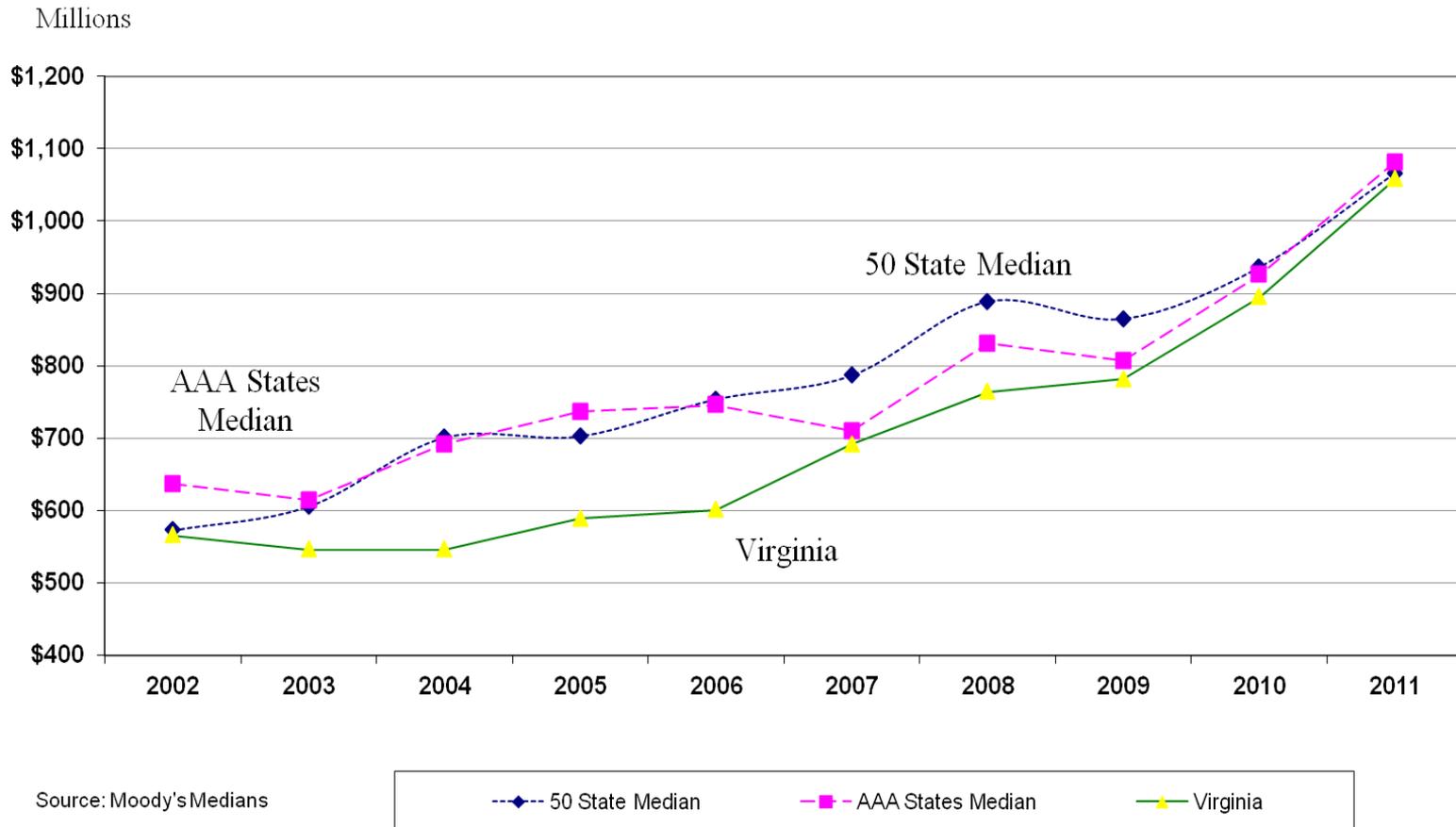
* States were not triple triple A during entire 2002-2011 period.

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

(2) Year refers to prior calendar year-end.

Virginia's Debt Position Remains Strong Compared To Peers (continued)

Net Tax-Supported Debt per Capita
Virginia vs Moody's U.S. 50-State Median and other AAA States
2002 – 2011



Virginia's Debt Position Remains Strong Compared To Peers (continued)

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2002-2011 PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt as Percent of Personal Income (1) (2)

	2011																			
	Ranking	2011		2010		2009		2008		2007		2006		2005		2004		2003		2002
Delaware	5	6.8 %		6.2 %		5.4 %		5.2 %		5.5 %		5.3 %		5.5 %		5.6 %		4.9 %		5.3 %
Utah	16	3.9		3.2		1.5		1.9		2.3		2.7		3.2		3.5		2.8		3.0
Maryland	18	3.5		3.4		3.3		3.0		2.8		3.0		2.9		3.0		2.7		2.6
Georgia	20	3.3		3.3		3.0		3.0		3.0		2.7		2.8		2.9		2.8		2.9
VIRGINIA	30	2.4		2.1		1.9		1.9		1.8		1.7		1.8		1.7		1.7		1.8
North Carolina*	33	2.3		2.3		2.5		2.8		2.4		2.8 *		2.5 *		2.0 *		1.5 *		1.4
Missouri	35	2.2		2.2		2.0		2.1		1.9		1.6		1.5		1.6		1.3		1.3
Iowa*	48	0.7		0.2 *		0.2 *		0.3 *		0.3 *		0.4 *		0.5 *		0.5 *		0.6 *		0.6 *
Median All States		2.8%		2.5%		2.5%		2.6%		2.4%		2.5%		2.5%		2.5%		2.2%		2.3%
AAA Median		2.9%		2.8%		2.3%		2.5%		2.4%		2.7%		2.7%		2.5%		2.2%		2.2%
AAA Average		3.1%		2.9%		2.5%		2.5%		2.5%		2.5%		2.6%		2.6%		2.3%		2.4%

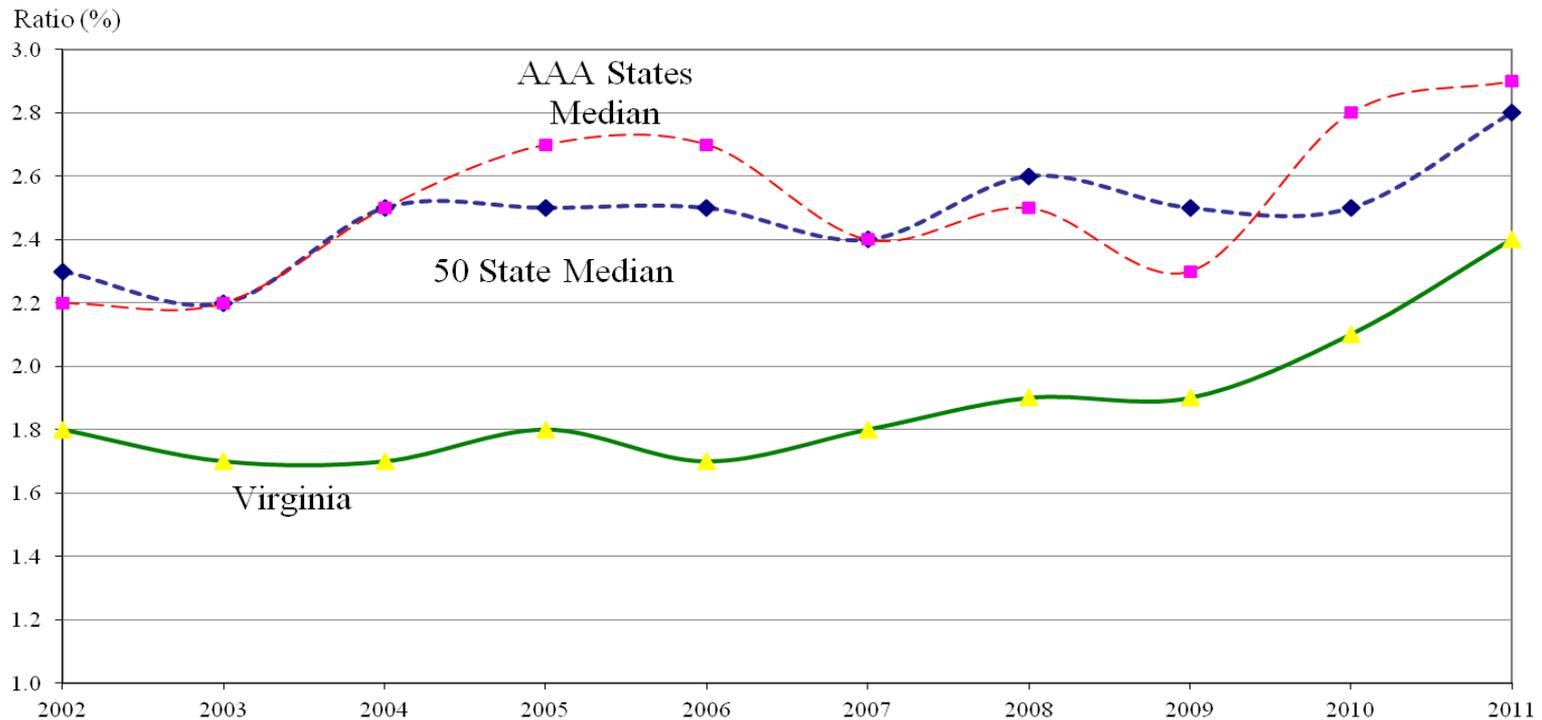
* States were not triple triple during entire 2002-2011 period.

(1) Year refers to prior calendar year-end.

(2) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

Virginia's Debt Position Remains Strong Compared To Peers (continued)

Net Tax-Supported Debt as Percentage of Personal Income on Virginia vs Moody's U.S. 50-State Median and other AAA States
2002 – 2011



Source: Moody's Medians



Commonwealth's Bond Rating

- Commonwealth is one of only eight states with a triple-A general obligation bond rating from all three major rating agencies.
- In July 2011, Moody's placed the U.S. Sovereign rating on review for possible downgrade. Citing vulnerability to U.S. Government ratings, the ratings of five triple-A states, including Virginia, were placed on review for possible downgrade.
- Moody's assessment focused on five key issues:
 - Federal Employment
 - Federal Procurement Contracts
 - Healthcare Employment
 - Medicaid Expenditures
 - Variable Rate Debt Exposure
- On December 7, 2011 following additional assessment, the outlooks for South Carolina and Tennessee were revised to stable. Maryland, New Mexico and Virginia remain on Negative Outlook.

Commonwealth's Bond Rating (continued)

- In August 2011, Standard & Poor's (S&P) lowered the U.S. Sovereign rating from AAA/stable to AA+/negative.
- S&P also placed the rating of certain issuers with a “direct link” to the U.S. sovereign rating, such as the Virginia Housing Development Authority, on Negative Credit Watch.
- S&P Continues to rate Virginia's general obligation bonds AAA/stable.
- Fitch has indicated that its state and local ratings will not necessarily move in lock-step with the U.S. rating, since state & local governments have considerable autonomy and possess their own taxing power and borrowing authority. However those ratings could be effected by future federal policy changes.
- In their October 2011 ratings reports, each of the rating agencies affirmed the Commonwealth's triple-A general obligation bond ratings as follows:
 - Moody's: Aaa/ Negative Outlook
 - S&P: AAA/Stable Outlook
 - Fitch: AAA/Stable Outlook

Debt Capacity Advisory Committee

- Debt Capacity Advisory Committee (DCAC) was established in 1991 by Executive Order and codified in 1994.
- DCAC membership:
 - Secretary of Finance (Chairman), State Treasurer, Director of the Department of Planning and Budget, State Comptroller
 - Auditor of Public Accounts, Director of the Joint Legislative Audit and Review Commission, Staff Directors of Senate Finance Committee and House Appropriations Committee
 - Two citizen members who have expertise in financial matters appointed by the Governor
- Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt, and to annually submit to the Governor and the General Assembly an estimate of the maximum amount of additional tax-supported debt that prudently may be authorized and issued during the next two years.
- The estimate is advisory and is not binding on the Governor or the General Assembly.

Importance of Measuring Debt Affordability

- Debt affordability is one of four key factors assessed by rating agencies.
- Attempts to correlate the borrowing for capital needs with the ability to repay.
- Issuance above capacity can cause erosion in credit rating.
- Capacity to issue debt is finite for a given credit quality.

Debt Affordability Measure

Goal to maintain debt service on tax-supported debt under 5% of blended revenues over a 10-year horizon.

- Tax-supported debt includes:
 - Debt for which debt service payments are made or pledged to be made from funds derived from tax revenues
 - Bonded debt, capital leases, installment purchases, etc.

- Blended revenues include:
 - General Fund: Corporate/Individual/Sales, 2/3 Insurance Premium, Licenses & Permits, ABC/Beer Excise, Bank & Corporate Franchise, and Tobacco taxes
 - Transfers: ABC Profits, Other Recurring Transfers to the General Fund
 - Transportation Trust Fund: Motor Fuels, Priority Transportation Fund, Vehicle Sales and Use, Aviation Fuels, Rental, Recordation (2 cents) and 1/3 Insurance Premium taxes.

- Debt Service Includes:
 - Actual debt service on all outstanding tax-supported debt and long-term obligations
 - Estimated debt service on authorized but unissued debt.

2010 Debt Capacity Study

- In 2010, the Debt Capacity Advisory Committee requested a review of Virginia's, then 19-year old Debt Capacity Model.
- The following are the primary study recommendations adopted by the Committee:
 - Blended revenues to include (i) 0.25% sales tax enacted in 2004 and never included in the model and (ii) certain recurring transfers to the General Fund (GF) from Non-general Fund (NGF) sources.
 - Annual debt service carried in the model to be reduced by the portion paid from NGF.
 - Annual recommendation to be based on **average** capacity over the ten-year horizon of the debt capacity model rather than just the next two-year solution.
 - Smooths the effect of revenue fluctuations
 - Facilitates long-term capital planning
 - Same overall capacity over the ten-year horizon.

Model Assumes Bonds Will Continue To Be Issued For Currently Authorized Projects

Authorized Tax-Supported Debt Issuance Assumptions (Dollars in Millions)

	<u>9(b)</u>	<u>VPBA</u>	<u>VCBA 21st Century Equipment</u>	<u>VCBA 21st Century Projects</u>	<u>CPR Transportation</u>	<u>NVTD Transportation</u>	<u>VPA</u>	<u>Total</u>
Authorized & Unissued as of June 30, 2011	\$ -	\$ 704.3	\$ 115.0	\$ 1,921.3	\$ 2,087.3	\$ 24.7	\$ 125.0	\$ 4,977.6
Issued Jul 1 - Dec 31, 2011		298.5	48.6	223.9			60.0	\$ 631.0
Assumed Issued:								
FY 2012		-	56.0	300.0	600.0	-	-	\$ 956.0
FY 2013		118.1	-	380.0	600.0	-	65.0	\$ 1,163.1
FY 2014		102.0	-	300.0	300.0	24.7	-	\$ 726.7
FY 2015		156.8	-	400.0	50.0	-	-	\$ 606.8
FY 2016 -21		-	-	291.3	537.0	-	-	\$ 828.3
Total Planned		376.9	56.0	1,671.3	2,087.0	24.7	65.0	4,280.9
Subtotal Issued & Planned		675.4	104.6	1,895.2	2,087.0	24.7	125.0	4,911.9
Authorized Debt Assumed Unissued ⁽¹⁾	\$ -	\$ 28.9	\$ 10.4	\$ 26.1	\$ 0.3	\$ -	\$ -	\$ 65.7

⁽¹⁾ Assumed funded from premium from bonds sold.

Debt Capacity Recommendation December 2011

- December 2011 report of the Debt Capacity Advisory Committee
 - An additional \$467 million could prudently be authorized and issued for each of fiscal years 2013 and 2014.
- Solution based on determining how much additional debt could be issued while maintaining debt service at less than 5% of Blended Revenues, then adopting the average solution over the ten-year model horizon.
- If all available capacity is utilized, the model shows that debt service will exceed 5% in some years.
- The highest level of debt service to revenues occurs in 2016 at 5.59%.

Debt Capacity Recommendation December 2011 (continued)

Base Solution

December 2011

(Dollars in Millions)

	[A]	[B]	[C]	[D]	
Fiscal Year	Blended Revenues	Actual Outstanding Debt Service as a % of Revenues	Actual & Projected Debt Service as a % of Revenues	Amount of Additional Debt That May Be Issued	Total Debt Service as a % of Revenues
Actual 2008	17,076.40	3.12%	3.12%	N/A	3.12%
Actual 2009	15,680.70	3.75%	3.75%	N/A	3.75%
Actual 2010	15,871.20	3.99%	3.99%	N/A	3.99%
Actual 2011	16,751.10	4.14%	4.14%	N/A	4.14%
2012	17,474.70	4.27%	4.60%	0.00	4.60%
2013	18,009.10	3.98%	4.80%	0.00	4.80%
2014	18,807.90	3.70%	4.90%	0.00	4.90%
2015	19,565.30	3.51%	4.99%	0.00	4.99%
2016	20,460.00	3.20%	4.90%	253.41	4.99%
2017	21,278.40	2.91%	4.67%	678.36	4.99%
2018	22,086.30	2.57%	4.27%	934.13	4.91%
2019	23,065.97	2.24%	3.89%	934.13	4.80%
2020	24,090.01	2.01%	3.54%	934.13	4.70%
2021	25,160.48	1.84%	3.33%	934.13	4.72%
			10 Year Average	\$466.83	

[A] Equals actual outstanding debt service as a percentage of blended revenues.

[B] Equals outstanding debt service and debt service on currently authorized but unissued debt as a percentage of blended revenues.

[C] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[D] Equals outstanding debt service; debt service on currently authorized but unissued debt and debt service on additional debt that could be issued, as a percentage of blended revenues.

Debt Capacity Recommendation December 2011 (continued)

Average Solution Illustration

December 2011

(Dollars in Millions)

	[A]	[B]	[C]	[D]	
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2012	17,474.70	4.27%	4.60%	0.00	4.60%
2013	18,009.10	3.98%	4.80%	466.83	4.99%
2014	18,807.90	3.70%	4.90%	466.83	5.28%
2015	19,565.30	3.51%	4.99%	466.83	5.53%
2016	20,460.00	3.20%	4.90%	466.83	5.59%
2017	21,278.40	2.91%	4.67%	466.83	5.49%
2018	22,086.30	2.57%	4.27%	466.83	5.22%
2019	23,065.97	2.24%	3.89%	466.83	4.95%
2020	24,090.01	2.01%	3.54%	466.83	4.70%
2021	25,160.48	1.84%	3.33%	466.83	4.58%
			Average	\$466.83	

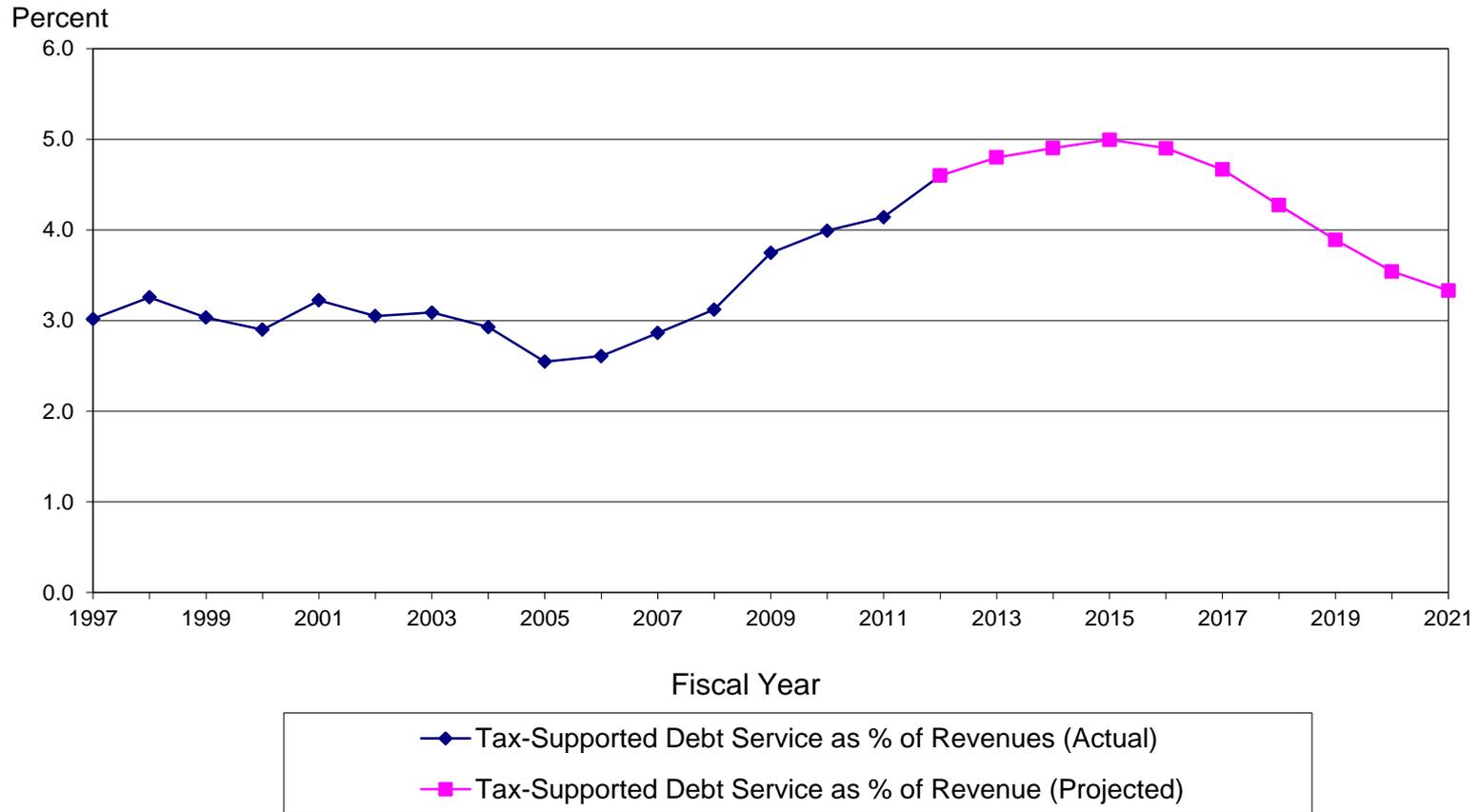
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[B] Equals outstanding debt service and debt service on currently authorized but unissued debt as a percentage of blended revenues.

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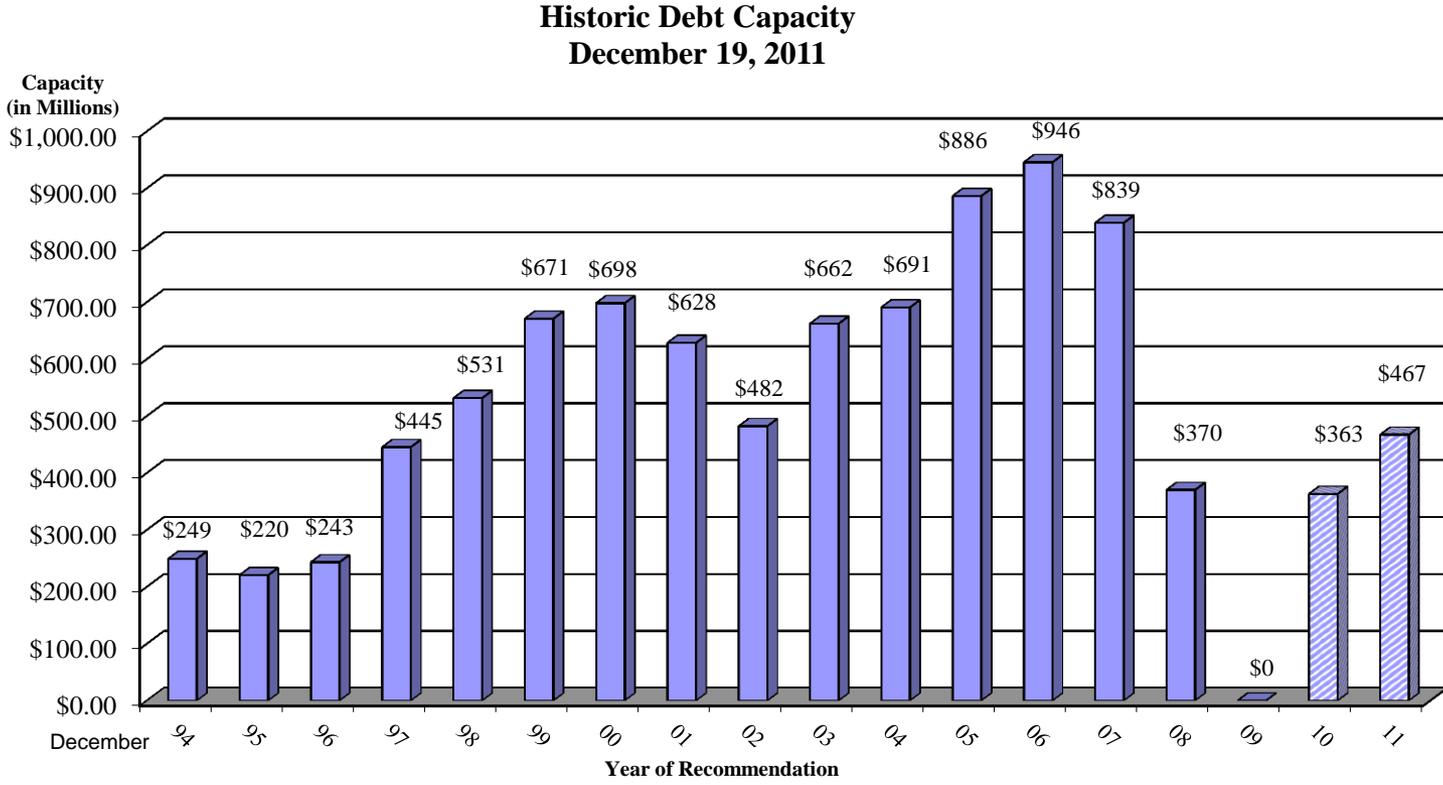
[D] Equals outstanding debt service; debt service on currently authorized but unissued debt and debt service on additional debt that could be issued, as a percentage of blended revenues.

Tax-Supported Debt Service as a Percent of Revenue



Includes projected debt service on debt authorized but unissued as of December 19, 2011

Debt Capacity 1994-2011



Proposed New Debt Authorization 2012-14 Biennium

(Dollars in Millions)

• Tax-Supported	
– Maintenance Reserve (Item C-37)	\$201.2
– Equipment for previously constructed projects (Item C-38)	\$ 39.6
– Regional Jail (New SW Virginia Regional Jail (Item 280)	\$ 16.9
– Higher Education Equipment Trust Fund (Item 254)	<u>\$112.2</u>
Subtotal	\$369.9
– 9(c) Bonds* (Item C-40)	<u>\$124.6</u>
Total Tax-Supported	<u>\$494.5</u>
• Not-Tax-Supported	
– Expand port Terminals (Item C-36)	\$105.5
– 9(d) Higher Ed (Item C-41)	<u>\$340.5</u>
Total Not Tax Supported	<u>\$446.0</u>

* Not included in debt capacity calculation